

## Message Text

CONFIDENTIAL

PAGE 01 JAKART 05733 301028Z

17

ACTION EA-09

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01 OES-06

SP-02 SS-15 STR-04 TRSE-00 FEA-01 /092 W

----- 097259

P 300842Z APR 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4180

C O N F I D E N T I A L JAKARTA 5733

E.O. 11652: GDS

TAGS: ENRG, EINV, ID

SUBJECT: INDONESIAN DISCUSSION WITH PRODUCTION SHARING  
COMPANIES.

1. MINISTER OF MINES SADLI ADVISED AMBASSADOR APRIL 30  
THAT DESPITE PRODUCTION SHARING TAX PROBLEM, GOI HAD  
DECIDED PROCEED WITH FURTHER DISCUSSIONS ON REVISION  
OF PAYMENT ARRANGEMENTS.

2. DISCUSSIONS WOULD BE BASED ON TWO OBJECTIVES:

A. CHANGE TO U.S. ACCOUNTING PRINCIPLE IN PLACE  
OF CURRENT 40 PERCENT COST AMORTIZATION: U.S. TAX ACCOUNTING  
RULES WILL BE FOLLOWED TO DETERMINE TRUE EXPENSES OF  
PRODUCTION SHARING COMPANIES EXCEPT IN CASE AMORTI-  
ZATION OF LEASE HOLD EXPENSES WHICH WILL BE OVER LENGTH  
OF LEASE INSTEAD OF ONE YEAR AS CALLED FOR BY U.S.  
TAX ACCOUNTING. IN GENERAL, PRINCIPLE WILL BE TO  
MAINTAIN INCENTIVE SYSTEM. COMPANIES, IF EFFECT, WILL  
BE PERMITTED TO CHARGE OFF INITIAL AND EXPLORATION  
EXPENSES UP TO 40 PERCENT ON BASIS OF U.S. TAX ACCOUNTING.  
CEILING WILL BE MAINTAINED, ACCORDING TO SADLI, SINCE  
GOVERNMENT HAS NOT YET HAD EXPERIENCE WITH AMORTIZATION  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 05733 301028Z

OF INTANGIBLE EXPLORATION COSTS.

B. IMPROVED PROFITS SPLIT. CURRENT SPLIT IS ON BASIS OF 65/35 BELOW BASE PRICE AND 85/15 ABOVE BASE PRICE. NEW ARRANGEMENTS WOULD SEEK TO HAVE SINGLE SPLIT, POSSIBLY 80/20. SADLI SAID GOVERNMENT HAD NOT YET FIRMLY DECIDED.

3. COMPANIES WILL ALSO BE PERMITTED STILL TO CARRY FORWARD THE AMORTIZATION OF SCHEDULED COSTS DETERMINED UNDER FORMER SYSTEM. THIS WOULD AMOUNT TO APPROXIMATELY \$570 MILLION FOR FIVE COMPANIES INCLUDING FRENCH COMPANY TOTAL.

4. IN RESPONSE TO QUESTION, SADLI SAID HE RECOGNIZED THAT PRODUCTION SHARING COMPANIES HAD DIFFERENT ECONOMIC SITUATIONS AND THAT SOME EFFORT WOULD BE MADE IN NEGOTIATIONS AND IN APPLICATION OF ACCOUNTING TO RECOGNIZE THESE DIFFERENCES. WHILE TWO PRINCIPLES MENTIONED ABOVE WOULD BE FOLLOWED GOVERNMENT HAD MOVED AWAY FROM IDEA OF INSISTING ON FLAT FIGURE FOR CHANGE IN PROFIT.

5. ON RETROACTIVITY, SADLI SAID IT WAS STILL ASSUMED THAT ARRANGEMENTS WOULD BE AS OF JANUARY 1, 1976. IT WAS JUST UNFORTUNATE, HE SAID, THAT THE CHANGES IN PERTAMINA DELAYED THE NEGOTIATING PROCESS SO LONG. NEWSOM

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, DIPLOMATIC DISCUSSIONS, BUSINESS FIRMS, TAXES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 30 APR 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** BoyleJA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976JAKART05733  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D760164-0802  
**From:** JAKARTA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t1976044/aaaaacnb.tel  
**Line Count:** 88  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** BoyleJA  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 25 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <25 MAY 2004 by greeneet>; APPROVED <20 SEP 2004 by BoyleJA>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** INDONESIAN DISCUSSION WITH PRODUCTION SHARING COMPANIES.  
**TAGS:** ENRG, EINV, ID, US  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006